

Ahead of the Curve

November 30, 2018
Focus on November's inflation and consumer confidence figures

- Monthly inflation (November).** We forecast a 0.71% m/m increase in the headline and +0.25% at the core index. Inflation will be mostly driven by the end of summer discounts in electricity tariffs in some areas of the country, explaining 40bps of the projected increase in the headline. However, we expect higher agricultural prices (+21bps), mainly explained by an increase in the price of fresh fruits and vegetables, which could contribute with 19bps to overall inflation. By contrast, we expect a favorable effect on goods prices due to the discounts of *El Buen Fin* (Mexico's Black Friday), thus resulting in a contribution of 9bps from core goods. With these results, 12-month inflation would stand at 4.57%, lower than the 4.90% seen in October. Moreover, we forecast core inflation at 3.64% yoy (previous: 3.73%).
- Consumer confidence (November).** We expect consumer confidence to decline to 101.3pts in November from 103.0pts in the previous month, still above the pivot of 100pts that has not been breached since July. In annual terms, this would still be significantly higher relative to the longer-term trend, increasing 13.4% yoy. Nevertheless, on monthly terms using seasonally-adjusted data, this would imply a contraction of 1.8%, the highest since January 2017. We expect two factors to contribute to the decrease in the month: (1) the depreciation of the Mexican peso during the period; and (2) an increase in the prices of food in the first half of the month. By contrast, the strong dynamics of the labor market could continue to support confidence

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 Document for distribution among the
 general public

Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 3-Dec	10:00am	Family remittances	October	US\$ mn	<u>2,906.9</u>	2821.0	2,079.3
Mon 3-Dec	10:00am	Banxico's survey of economic expectations	November				
Mon 3-Dec	9:00am	PMI's survey (IMEF)	November				
		Manufacturing		index	<u>49.2</u>	--	49.7
		Non-manufacturing		index	<u>50.5</u>	--	50.2
Tue 4-Dec	10:00am	International reserves	Nov-30	US\$ bn	--	--	173.9
Tue 4-Dec	12:30pm	Government weekly auction: 1-, 3-, 6-, and 12-month Cetes; 20y MBono (Nov'38); 30y Udibono (Nov'46); 5y Bondes D					
Wed 5-Dec	9:00am	Consumer confidence	November	index	<u>101.3</u>	--	103.0
Wed 5-Dec	4:30pm	Citibanamex bi-weekly survey of economic expectations					
Thu 6-Dec	9:00am	Gross fixed investment	September	% yoy	<u>-1.8</u>	--	-2.4
		Machinery and equipment		% yoy	<u>-2.0</u>	--	-3.0
		Domestic		% yoy	<u>-9.4</u>	--	-12.2
		Imported		% yoy	<u>3.6</u>	--	3.8
		Construction		% yoy	<u>1.7</u>	--	1.9
Fri 7-Dec	9:00am	CPI inflation	November	% m/m	<u>0.71</u>	0.81	0.52
				% yoy	<u>4.57</u>	4.67	4.90
		Core		% m/m	<u>0.25</u>	0.26	0.31
				% yoy	<u>3.64</u>	--	3.73

Source: Banorte; Bloomberg

Proceeding in chronological order...

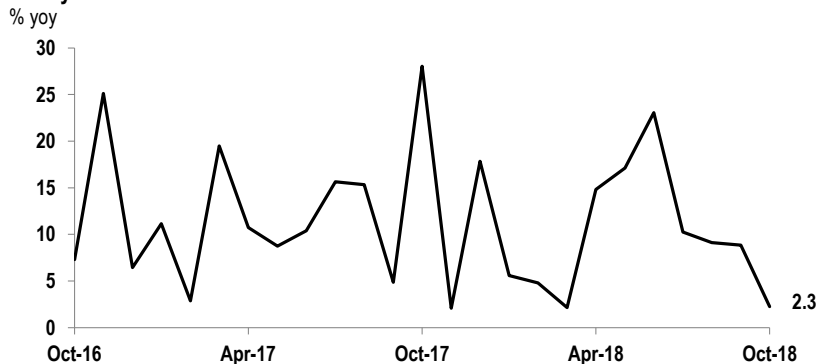
Remittances: High absolute inflow but low rate in the annual comparison.

We expect remittances in October at US\$ 2,906.9 million, implying a new high in terms of absolute flow since June 2018. Nevertheless, it is worth noting that, in the annual comparison, it would represent an increase of 2.3%, significantly below the year-to-date increase up to September of 10.8%.

In this respect, we highlight that growth is likely to be impacted by an unfavorable base effect, taking into account the amount received in the same month of 2017 stood at US\$ 2,842.5 million, a new historical high at the time. In retrospect, we believe this was influenced to a great extent by additional resources sent by Mexican workers in the US as family aid in the aftermath of the natural disasters observed in September 2017.

Taking the latter into account, we believe the flow of remittances will remain strong and could have been influenced to the upside by the anti-immigrant rhetoric of the US administration. In particular, on October 18th President Trump tweeted about the possibility of closing the border with Mexico due to the migrant caravan that was making its way to the US, which finally materialized last weekend. Although financial ties were not part of the measures involved, we believe it's likely that it could have induced more remittances due to increased cautiousness among Mexican workers. Additionally, the Mexican peso depreciated strongly during the second part of the month (increasing the purchasing power of USD in MXN terms), and employment (with or without citizenship) increased 129,275 during the month.

Family remittances



Source: Banxico

Banxico's survey of economic expectations. Market focus will be on inflation forecasts, particularly that of 2018, which as of last survey stand at 4.5% (Banorte: 4.8%), as well as inflation expectations for the medium and long term. Moreover, attention will also be on monetary policy forecasts, for we expect the reference rate to remain at 8.00% for the remainder of the year. In addition, we will be looking into 2018's GDP forecast, which we expect at 2.1% (consensus: 2.1%). Furthermore, we expect some revisions to FX forecasts, considering that the current estimate stands at USD/MXN 19.00 (Banorte: USD/MXN 20.50).

We expect weaker performance of the manufacturing PMI relative to services. We estimate the manufacturing PMI to stay in contraction territory and weaken at the margin to 49.2pts in November, below the 49.7 of the previous print. We highlight that forward-looking indicators of the US manufacturing sector showed a slight deceleration during the month, in particular the US PMI. These signals could be partially compensated by the depreciation of the Mexican peso, which could have had a favorable impact in the performance of export-related companies. Nevertheless, we believe that higher overall uncertainty about the outlook is likely to maintain a negative bias in terms of expectations.

Going to the non-manufacturing index, we estimate a slight increase to 50.5pts from 50.2pts previously. We believe this figure could be supported by two factors. First, preliminary data suggests that *El Buen Fin*, Mexico’s Black Friday, surpassed expectations in terms of total sales, estimated above MXN 100 billion and annual expansion of around 8%. Despite seasonally-adjusted data are used given that this program has been implemented every November since 2011, the adjustment made to the time series does not fully adjust for this effect. Second, it is worth remembering that labor market fundamentals remain quite healthy, as evidenced by the unemployment rate in October at its minimum level according to figures based on the ENOE employment survey. Nevertheless and going forward, recent data suggests that consumption could decelerate in coming months, which in our view could start showing more decisively in the December print.

Weekly international reserves report. Last week, net international reserves expanded by US\$56 million, amounting to US\$173.9 billion. According to Banxico’s report, this figure comes mainly from a positive valuation effect in central bank assets. In this context, the central bank’s international reserves have increased by US\$1,106 million during 2018 (please refer to the following table).

Banxico's foreign reserve accumulation detail
US\$, million

	2017	Nov 23, 2018	Nov 23, 2018	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	172,802	173,907	56	1,106
(B) Gross international reserve	175,450	176,573	-82	1,123
Pemex	--	--	95	-559
Federal government	--	--	-2	389
Market operations	--	--	0	0
Other	--	--	-175	1,293
(C) Short-term government's liabilities	2,648	2,665	-138	17

Source: Banco de México

Weekly government bond auction. The Ministry of Finance (MoF) –via Banco de Mexico as its financial agent–, will offer 20-year fixed-rate Mbonos (Nov’38), 30-year inflation-linked Udibonos (Nov’46), 5-year Bondes D, in addition to the “more traditional” 1-, 3-, 6-, and 12-month zero-coupon Cetes (please refer to the following table). As usual, results will be released at 12:30pm (ET).

Auction specifics (Tuesday, December 4th, 2018)

	Maturity	Coupon rate, %	To be auctioned ¹	Previous yield ²
Cetes				
1m	03-Jan-19	--	7,000	7.97
3m	07-Mar-19	--	11,000	8.25
6m	06-Jun-19	--	11,000	8.48
12m	07-Nov-19	--	12,500	8.49
Bondes D				
5y	01-Nov-23	--	5,000	0.19
M Bono				
20y	18-Nov-38	8.50	1,000	8.50
Udibono				
30y	08-Nov-46	4.00	UDIS 200	4.23

Source: Banorte with data from Banco de México 1. Except for Udibonos, which are expressed in UDI million, everything else is expressed in MXN million. 2. Yield-to-maturity reported for Cetes, Mbonos and Udibonos

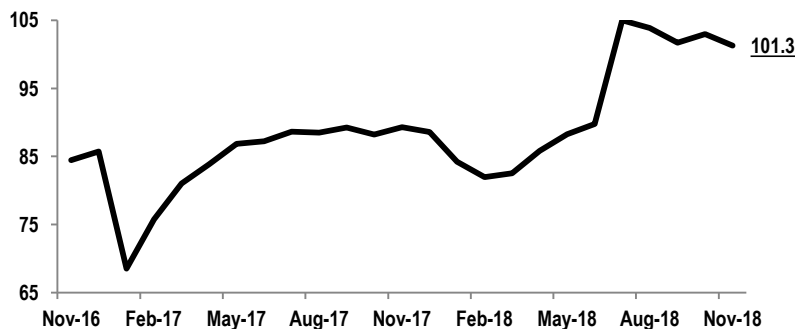
Consumer confidence to moderate in November after a surprise jump in the previous month. We expect consumer confidence to decline to 101.3pts in November from 103.0pts in the previous month, still above the pivot of 100pts that has not been breached since July. In annual terms, this would still be significantly higher relative to the longer-term trend, increasing 13.4% yoy. Nevertheless, on monthly terms using seasonally-adjusted data, this would imply a contraction of 1.8%, the highest since January 2017.

On the negative side, we believe that the depreciation of around 6% of the Mexican peso since the latest survey was compiled up to the end of the sample for this month (October 20 to November 20), could have weighed on sentiment, particularly on current conditions subindices. Moreover, despite inflation in annual terms falling from 4.87% in October to 4.56% in the first half of November, we think that sizable increases in food prices (both fresh and processed) could also limit the advance of households' present conditions index. Nevertheless, the unemployment rate in October reached a historical low since the new employment survey is used for this calculation (January 2005), which could tend to support this latter index.

Lastly, it is worth remembering that in October, all index components increased in their monthly comparison except for expectations for the country, which we attribute to the dilution of electoral optimism. In this respect, we believe that the downward trend in this component will continue. All in all and despite expecting a contraction, confidence levels are likely to remain high and above their long-term trend in coming months.

Consumer confidence

Index, nsa



Source: INEGI

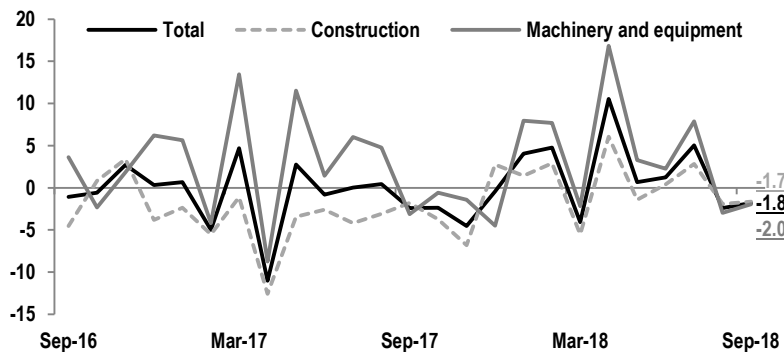
Citibanamex Survey. Market focus will center on analysts' inflation forecasts for November (to be published on Friday, December 7th). Furthermore, attention will be on monetary policy assessments, given the publication of Banxico's Quarterly Report as well as the minutes of the last monetary policy decision. In addition, this publication will contain forecasts for growth and the USD/MXN exchange rate.

GFI expected in negative territory for the second month in a row. We anticipate gross fixed investment at -1.8% yoy in September, slightly better in the annual comparison relative to the previous month, which printed at -2.4%.

Within the report and using original figures, we believe weakness in construction will persist to fall 1.7%, marginally stronger than the 1.9% decrease in August. In this respect, industrial production data point towards a negative print, as this sector went from -1.9% to -0.7% in the same period. Moreover this expectation also seems supported by the dynamics observed in business confidence indexes for the month, as construction was the one that fell the most among the subsectors followed by INEGI (manufacturing and commerce).

On the other hand, we estimate that investment in machinery and equipment could fall by 2.0%, driven by a relatively strong contraction in the domestic component (-9.4%). If this materializes, it would be the second highest contraction so far this year. In contrast, this would be mitigated by an advance of 3.6% in the imported component, which would result in a sixth consecutive month in positive territory. This relatively strong print (particularly when compared to the domestic component) would be influenced at least in part to the USD/MXN exchange rate, with an average level of 19.00 per dollar and consolidating after the post-election rally. Moreover, capital goods imports remained have relatively stable both in August and September, advancing at 9.3% and 9.1%, in the same order.

GFI
% yoy nsa



Source: INEGI, Banorte

End of summer discounts in electricity tariffs to continue impacting inflation in November. We forecast a 0.71% m/m increase in the headline and +0.25% at the core index. Inflation will be mostly driven by the end of summer discounts in electricity tariffs in some areas of the country, explaining 40bps of the projected increase in the headline. Nevertheless, we expect the rest of energy to show a more modest behavior given the stabilization in gasoline (+1bps), as well as a strong contraction in the price for LP gas (-11bps). However, we expect higher agricultural prices (+21bps), mainly explained by an increase in the price of fresh fruits and vegetables, which could contribute with 19bps to overall inflation. By contrast, we expect a favorable effect on goods prices due to the discounts of *El Buen Fin* (Mexico's Black Friday), thus resulting in a contribution of 9bps from core goods.

With these results, 12-month inflation would stand at 4.57%, lower than the 4.90% seen in October. Moreover, we forecast core inflation at 3.64% yoy (previous: 3.73%). In this regard, inflation is being benefitted from two factors: (1) A favorable base effect, considering that inflation in November 2017 stood at 6.63%; and (2) lower pressures on energy in the face of falling international reference prices. However, in the previous bi-weekly print, as well as in this period, we observed strong increases in the agricultural component, which could counteract these effects. Considering the latter, we maintain our 4.8% year-end forecast, with modest risks to the downside.

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HOLD	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
SELL	<i>When the share expected performance is lower than the MEXBOL estimated performance.</i>

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